

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE EKURHULENI METROPOLITAN MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ekurhuleni Metropolitan Municipality set out on pages xxx to xxx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practise (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ekurhuleni Metropolitan Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. As disclosed in note 45 of the financial statements, the municipality is the defendant in various court cases and disputes. The ultimate outcome of these matters cannot presently be determined or, and reliably measured, therefore no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of various errors discovered during the year ended 30 June 2012.

Material losses

10. As disclosed in note 58 of the financial statements, the municipality incurred material water losses with a value of R468 330 742 (2011: R402 143 621) during the year under review which represents a loss of 30.3% (2011: 29.6%).
11. As disclosed in note 58 of the financial statements, the municipality incurred material electricity losses with a value of R659 971 483 (2011: R 551 989 331) during the year under review which represents a loss of 11.1% (2011: 11.7%). Included in the electricity losses are technical losses of 5.9% (2011: 5.9%) and non-technical losses of 5.2% (2011: 5.8%).

Material impairment

12. As disclosed in note 15 to the financial statements, gross consumer debtors totalling R8 344 960 071 (2011: R9 635 055 512) have a provision for debt impairment of R 5 660 993 988 (R7 187 582 562), this represents 67.8% (2011: 74.6%) of the balance. The contribution to the provision for debt impairment during the year under review was R1 570 904 704 (2011: R1 445 304 490).

Additional Matters

13. I draw attention to the matter below. My opinion is not modified in respect of this matter

Unaudited supplementary schedules

14. The supplementary information set out on pages xxx to xxx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific,

measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

19. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Procurement and contract management

20. Awards were made to providers whose principal shareholders are persons in service of the municipality in contravention of Supply Chain Management (SCM) regulations 44. Furthermore the providers failed to declare that they were in the service of the municipality, as required by SCM regulation 13(c).
21. Awards were made to providers who are persons in service of other state institutions or whose directors or principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
22. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality. Furthermore the providers failed to disclose such interest, as required by SCM regulation 46(2)(e)/the code of conduct for staff members issued in terms of the MSA.
23. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by regulation 19(a) of the SCM. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
24. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
25. Contracts above R10 000 000 were awarded without the approval of the accounting officer, as required by SCM regulation 5(2)(a).

Expenditure management

26. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
27. Irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

Audit committee

28. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Human resource management

29. Senior managers directly accountable to the municipal manager did not sign annual performance agreements within one month after the start of the financial year, as required by sections 57(1)(b) and 57(2)(a) of the Municipal Systems Act.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

30. The accounting officer did not have sufficient monitoring controls in place to ensure adherence to the SCM regulations which may not be subdelegated.

Financial and performance management

31. Senior management did not have adequate controls in place and did not review and monitor compliance with the SCM regulations. The contract register did not contain sufficient detail to support all of these regulations.

OTHER REPORTS

Investigations

32. In terms of the Proclamation No. R 63, 2010, the President of South Africa has assigned the Special Investigating Unit to investigate various issues on the state of affairs of the municipality. The investigation includes supply chain management, fraud and financial misconduct.
33. During the financial year 101 investigations were being conducted of which 53 were being carried forward from the previous financial year by the internal audit division of the municipality. Of these, 36 investigations were finalised. Twenty four of the investigations were in a draft reporting stage, 39 of the investigations were at the field work stage and 2 investigations not started. Circumstances that resulted in investigations pertained mainly to non-compliance with the SCM regulations, fraud and financial misconduct, such as the extending of contracts, misuse of regulation 36(1), irregular awarding of tenders, splitting of payments and quotations from fictitious suppliers.
34. As a result of an internal process to satisfy SCM regulation 5(2), for the approval of contracts above R10 000 000, four contracts were identified that would need to be investigated by a council committee.

Agreed-upon procedures engagements

35. As requested by the municipality, an agreed upon procedure engagement was conducted during the year under review concerning the third issue of R800 million notes under the Domestic Medium Term Note Programme. The report covered the period July 2011 to January 2012 and was issued on the 8 March 2012.

Johannesburg
29 November 2012



Auditing to build public confidence